

**Government of the District of Columbia  
Office of the Chief Financial Officer**

**Natwar M. Gandhi**  
Chief Financial Officer



**MEMORANDUM**

**TO:** The Honorable Linda W. Cropp  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi  
Chief Financial Officer

**DATE:** MAR 20 2006

**SUBJECT:** Fiscal Impact Statement: "Tobacco Settlement Trust Fund and Tobacco Settlement Financing Amendment of 2006"

**REFERENCE:** Bill 16-605 As Introduced

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**Conclusion**

Funds are sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the proposed legislation. There would be no negative fiscal impact during the financial plan period, and the proposed bill could result in a positive fiscal impact of an estimated \$210 million dollars in capital funds for the District.

**Background**

The proposed legislation would permit an additional "securitization" of the stream of revenues to be received by the District of Columbia pursuant to the Master Settlement Agreement among the major tobacco manufacturers and most states in the United States and the District of Columbia. Tobacco settlement securitization entails selling bonds for which the annual debt service is payable solely from revenues that the District is entitled to receive through the Master Settlement Agreement.

In 2001 the District executed a tobacco settlement securitization in the amount of \$521 million; these bonds are scheduled to be paid off in 2026. Tobacco settlement revenues to be received by the District after 2026 would not be needed to pay off these bonds and, therefore, would be available to the District. Over the past year a new market has emerged for tobacco bonds with longer maturities. This new market for capital appreciation bonds allows the District to generate additional capital funding by using tobacco settlement revenues beyond 2026 to pay debt service

on such bond issuances. The proposed legislation would provide the authority for the District to issue these bonds.

### **Financial Plan Impact**

Funds are sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the proposed legislation. It is currently estimated that the issuance of additional tobacco bonds would generate approximately \$210 million. However, the market for these long-term capital appreciation bonds consists of a limited number of investors and is subject to significant fluctuations based on developments in the tobacco settlement area, such as court cases and the potential reduction of the amount that the tobacco companies are required to pay to the states and the District based on tobacco consumption figures.

At this time, market conditions are favorable and the OCFO has determined that this would be a prudent transaction for the District to raise capital funds for needed capital projects. Under the terms of these particular bond issuances, the risk would be transferred from the District to the bondholders. In addition, because the revenue stream supporting these bonds is not a District tax stream, it would not be considered District "tax-supported debt" and, therefore, would not be viewed by bond rating agencies as adding to the District's debt burden.